

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: City of Manistee Housing Commission	County Manistee
Audit Date December 31, 2005	Opinion Date May 18, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 333 Bridge St., N.W. , Suite 600		City Grand Rapids	State MI
ZIP 48823			
Accountant Signature  			

# **City of Manistee Housing Commission**

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**Financial Report**  
**December 31, 2005**

# City of Manistee Housing Commission

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## Independent Auditor's Report

To the Members  
City of Manistee Housing Commission  
Manistee, Michigan

We have audited the accompanying basic financial statements of the City of Manistee Housing Commission as of December 31, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the City of Manistee Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Manistee Housing Commission as of December 31, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and do not express an opinion thereon.

*Plante & Moran, PLLC*

May 18, 2006

# **City of Manistee Housing Commission**

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## **Management's Discussion and Analysis**

The City of Manistee Housing Commission's (CMHC or the "Housing Commission") management's discussion and analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of CMHC's financial activities for the year, (c) identify changes in CMHC's financial position, and (d) identify individual fund or program issues or concerns.

CMHC offers this narrative overview of the financial activities of CMHC for the year ended December 31, 2005.

Since the MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, please read this discussion in conjunction with CMHC's accompanying financial statements and notes.

### **Mission**

The City of Manistee Housing Commission is a component unit of the City of Manistee, a Michigan home rule city. The Housing Commission is a public housing authority created by the City of Manistee on August 30, 1968, consisting of a five-member board appointed by the mayor of the City of Manistee and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income and very low-income housing.

### **Financial Highlights**

- CMHC's total assets exceeded its liabilities by \$3,425,662 at December 31, 2005. This is a decrease of \$129,656 from the previous year. The result of prior period adjustments is discussed in Major Factors Affecting the Statement of Net Assets.
- Total revenues decreased by \$77,618 (6.5 percent) and were \$1,121,924 and \$1,199,542 for fiscal years 2005 and 2004, respectively.
- Expenses increased by \$184,927 (17.3 percent) and were \$1,251,580 and \$1,066,653 (including depreciation) for fiscal years 2005 and 2004, respectively.

# City of Manistee Housing Commission

## Management's Discussion and Analysis (Continued)

### The Housing Commission's Funds

CMHC's financial statements utilize the Enterprise Funds method on the full accrual basis of accounting. The enterprise method is similar to accounting used in the private sector. The major program maintained by CMHC is as follows:

**Low-income Public Housing Program** - Under this program, CMHC rents units that it owns to low-income households. This program is operated under the Annual Contributions Contract (ACC) with HUD, and HUD provides operating subsidies to enable CMHC to provide the housing at a cost that is based upon 30 percent of household income less applicable expenses. CMHC currently owns and operates 218 units in this program.

### The Housing Commission's Financial Statements

CMHC's basic Housing Commission-wide accompanying audited financial statements are designed to be corporate-like in that all business-type activities are consolidated into columns which add to a total for the entire Housing Commission. These financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire Housing Commission. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), formerly called capital contributions; restricted net assets; and unrestricted net assets.

Our Housing Commission-wide financial statements also include a statement of revenue, expenses, and changes in net assets (similar to an income statement). This statement includes operating revenues such as rental income, operating expenses such as administrative, utilities, and maintenance, and nonoperating revenue and expense such as capital grant revenue and investment income. The focus of this statement is the "change in net assets," which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, capital and related financing activities, and investing activities.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

# City of Manistee Housing Commission

## Management's Discussion and Analysis (Continued)

### City of Manistee Housing Commission Statement of Net Assets Fiscal Years Ended December 31, 2005 and 2004

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Fiscal Year 2005	Fiscal Year 2004 (as restated)	Change
<b>Assets</b>			
Current and other assets	\$ 347,294	\$ 329,741	\$ 17,553
Noncurrent assets	<u>3,319,094</u>	<u>3,451,789</u>	<u>(132,695)</u>
Total assets	3,666,388	3,781,530	(115,142)
<b>Liabilities</b>			
Current and other liabilities	224,433	164,897	59,536
Noncurrent liabilities	<u>16,293</u>	<u>61,315</u>	<u>(45,022)</u>
Total liabilities	240,726	226,212	14,514
<b>Net Assets</b>			
Invested in capital assets	3,302,801	3,451,789	(148,988)
Unrestricted	<u>122,861</u>	<u>103,529</u>	<u>19,332</u>
Total net assets (as restated)	<u><b>\$ 3,425,662</b></u>	<u><b>\$ 3,555,318</b></u>	<u><b>\$ (129,656)</b></u>

### Major Factors Affecting the Statement of Net Assets

Noncurrent assets decreased by \$132,695, due to the net change in capital assets.

Net assets at the beginning of 2005 have been adjusted to correct errors made in prior years, including understating capital assets. In correcting the errors, net assets for 2004 were increased by \$17,361 (as shown above).

Please refer to the full financial statements for more detailed information on these accounts.

# City of Manistee Housing Commission

## Management's Discussion and Analysis (Continued)

### City of Manistee Housing Commission Revenues and Expenses by Fund Fiscal Years December 31, 2005 and 2004

The following table shows the changes in net assets during the current year:

	Fiscal Year 2005	Fiscal Year 2004 (Unaudited)	Change
<b>Revenue</b>			
Tenant rent	\$ 503,301	\$ 385,999	\$ 117,302
HUD grant revenue	326,235	472,940	(146,705)
Nonoperating revenue	233,927	327,539	(93,612)
Miscellaneous	58,461	13,064	45,397
Total revenue	1,121,924	1,199,542	(77,618)
<b>Expenses</b>			
Low income public housing	942,866	795,233	147,633
Non-HUD/other business activities	308,714	271,420	37,294
Total expenses	1,251,580	1,066,653	184,927
<b>Change in Net Assets</b>	<b>\$ (129,656)</b>	<b>\$ 132,889</b>	

### Major Factors Affecting the Statement of Revenue and Expenses

Total revenues decreased by \$77,618. This decrease is a result of a decrease in capital grant revenues due to the level of appropriations that Congress approves. Also, the decrease in HUD grant revenue was due to the misreporting to HUD for several months in the prior year as a result of the fraud that occurred. The increase in tenant rent accurately portrays a full year's rent. The prior year amount was deficient due to an embezzlement that was reported in 2004.

Total operating expenses increased by \$184,927. This increase is mostly a result of a \$58,590 increase in administration expense due to an increase in professional fees including legal and audit fees, an \$85,799 increase in repairs and maintenance due to normal maintenance that was overdue, and a \$37,082 increase in miscellaneous expense due to casualty losses from flooding damage during the year. Most other expenses rose as a result of normal inflationary increases.

Please refer to the full financial statements for more detailed information on these accounts.



# City of Manistee Housing Commission

## Management's Discussion and Analysis (Continued)

### City of Manistee Housing Commission Revenues and Expenses Fiscal Years December 31, 2005 and 2004

The following table shows the results of operations for the current and previous fiscal years:

	Fiscal Year 2005	Fiscal Year 2004 (Unaudited)	Change
<b>Operating Revenue</b>			
Tenant rent	\$ 503,301	\$ 385,999	\$ 117,302
HUD grant revenue	326,235	472,940	(146,705)
Miscellaneous	58,461	13,064	45,397
Total operating revenue	887,997	872,003	15,994
<b>Operating Expenses</b>			
Administration	290,197	231,607	58,590
Tenant services	6,977	8,932	(1,955)
Utilities	151,723	156,784	(5,061)
Repairs and maintenance	414,850	329,051	85,799
Taxes	33,450	22,358	11,092
Insurance	45,669	46,501	(832)
Depreciation	257,175	256,963	212
Miscellaneous	51,539	14,457	37,082
Total operating expenses	1,251,580	1,066,653	184,927
<b>Operating Loss - Before nonoperating revenue</b>	(363,583)	(194,650)	(168,933)
<b>Nonoperating Revenue</b>			
Interest	5,408	1,708	3,700
Capital grants	228,519	325,831	(97,312)
Operating transfers in	228,519	212,873	15,646
Operating transfers out	(228,519)	(212,873)	(15,646)
<b>Change in Net Assets</b>	(129,656)	132,889	(262,545)
<b>Net Assets - Beginning of year (as restated)</b>	3,555,318	3,405,068	150,250
<b>Net Assets - End of year</b>	<u>\$ 3,425,662</u>	<u>\$ 3,537,957</u>	<u>\$ (112,295)</u>

Please refer to the full financial statements for more detailed information on these accounts.

# City of Manistee Housing Commission

## Management's Discussion and Analysis (Continued)

### City of Manistee Housing Commission Comparison of Capital Assets at Year End - Net of Depreciation For Fiscal Years Ended December 31, 2005 and 2004

	Fiscal Year 2005	Fiscal Year 2004	Change
Land	\$ 312,216	\$ 312,216	\$ -
Land improvements	72,192	45,262	26,930
Buildings	4,650,792	4,650,792	-
Building improvements	2,596,871	2,506,698	90,173
Furniture and equipment	411,801	409,548	2,253
Accumulated depreciation	<u>(4,741,071)</u>	<u>(4,506,644)</u>	<u>(234,427)</u>
Subtotal	3,302,801	3,417,872	(115,071)
Construction in progress	<u>-</u>	<u>33,917</u>	<u>(33,917)</u>
Total	<u><b>\$ 3,302,801</b></u>	<u><b>\$ 3,451,789</b></u>	<u><b>\$ (148,988)</b></u>

During fiscal year 2005, the change in capital assets amounted to a decrease of \$148,988. The above table represents the changes in the asset accounts by category as follows:

- Building improvements increased by \$90,173 as the result of renovations and general improvements, specifically the purchases of kitchen cabinetry and countertops.
- The accumulated depreciation increased by \$234,427. The increase is the net of current year depreciation expense of \$257,175 and the adjustment of accumulated depreciation on property disposed of during the year ended December 31, 2005.

### Contacting the CMHC Management

This financial report is designed to provide a general overview of the CMHC's finances and to show the CMHC's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the CMHC's office.

# City of Manistee Housing Commission

## Statement of Net Assets December 31, 2005

<b>Assets</b>	
<b>Current Assets</b>	
Cash (Note 2)	\$ 304,744
Accounts receivable - Tenants	4,102
Current portion of note receivable	11,262
Prepaid expenses	<u>27,186</u>
Total current assets	347,294
<b>Long-term Assets</b>	
Capital assets - Net (Note 3)	3,302,801
Note receivable	<u>16,293</u>
Total long-term assets	<u>3,319,094</u>
Total assets	<u><u>\$ 3,666,388</u></u>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 33,702
Tenant deposits	24,807
Deferred revenue	15,586
Accrued amounts due in lieu of taxes	90,299
Accrued and other liabilities	<u>60,039</u>
Total current liabilities	224,433
<b>Noncurrent Liabilities</b> - Deferred revenue	<u>16,293</u>
Total liabilities	240,726
<b>Net Assets</b>	
Invested in capital assets	3,302,801
Unrestricted net assets	<u>122,861</u>
Total net assets	<u>3,425,662</u>
Total liabilities and net assets	<u><u>\$ 3,666,388</u></u>

# City of Manistee Housing Commission

## Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2005

### Operating Revenue

Tenant rent	\$ 503,301
HUD grant revenue	326,235
Miscellaneous	<u>58,461</u>
Total operating revenue	887,997

### Operating Expenses

Administration	290,197
Tenant services	6,977
Utilities	151,723
Repairs and maintenance	414,850
Taxes	33,450
Insurance	45,669
Depreciation	257,175
Miscellaneous	<u>51,539</u>
Total operating expenses	<u>1,251,580</u>

**Operating Loss - Before nonoperating revenue** (363,583)

### Nonoperating Revenue

Interest	5,408
Capital grants	228,519
Operating transfers in	228,519
Operating transfers out	<u>(228,519)</u>

**Change in Net Assets** (129,656)

**Net Assets - Beginning of year (as restated) (Note 6)** 3,555,318

**Net Assets - End of year** \$ 3,425,662

# City of Manistee Housing Commission

## Statement of Cash Flows Year Ended December 31, 2005

### Cash Flows from Operating Activities

Receipts from HUD operating subsidies and grants	\$ 578,671
Receipts from tenants	501,478
Other receipts	58,461
Payments for administrative expenses	(290,197)
Payments for other operating items	(85,300)
Payments for resident and other services	(573,550)
Other payments	<u>(51,539)</u>
Net cash provided by operating activities	138,024

### Cash Flows from Capital and Related Financing Activities - Acquisition of capital assets

(108,187)

### Cash Flows from Investing Activities - Interest received on investments

5,408

### Net Increase in Cash

35,245

### Cash - January 1, 2005

269,499

### Cash - December 31, 2005

\$ 304,744

# City of Manistee Housing Commission

## Statement of Cash Flows (Continued) Year Ended December 31, 2005

### Reconciliation of Operating Loss to Net Cash from Operating

#### Activities

Operating loss	\$ (363,583)
Capital grants	228,519
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	257,175
Changes in assets and liabilities:	
Increase in accounts and notes receivable	(5,461)
Decrease in prepaid expenses	6,860
Decrease in accounts payable	(13,388)
Increase in tenant deposits	11,803
Increase in deferred revenue	26,547
Decrease in accrued and other liabilities	<u>(10,448)</u>
Net cash provided by operating activities	<u><u>\$ 138,024</u></u>

**Noncash Operating, Capital, Financing, and Investing Activities** - There were no noncash operating, capital, financing, and investing activities during the year ended December 31, 2005.

# City of Manistee Housing Commission

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## Notes to Financial Statements December 31, 2005

### Note 1 - Significant Accounting Policies

The financial statements of the City of Manistee Housing Commission (the "Housing Commission") pertain to the financial activities of the Housing Commission as a component unit of the City of Manistee, Michigan.

**Reporting Entity** - The Housing Commission is a Public Housing Authority created by the City of Manistee on August 30, 1968, consisting of a five-member board appointed by the Mayor of the City of Manistee and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing.

**Grants and Other Intergovernmental Revenues** - The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3077, the Commission constructed, maintains, and operates 218 units of subsidized housing in the City of Manistee, Michigan.

**Basis of Accounting** - The financial statements of the Housing Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Housing Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and accounting research bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Government activities, which normally are supported by intergovernmental (grant) revenues, are reported separately from any business-type activities, which would rely to a significant extent on fees and charges for support. All of the Housing Commission's activities are considered business activities.

The Housing Commission's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Housing Commission uses Enterprise Funds to maintain its financial records on an accrual basis. Under the accrual basis of accounting, revenues are recorded when earned, regardless of when received, and expenses are recorded when incurred, regardless of when paid.

The Housing Commission also considers all revenue and expenses to be operating, as required by HUD, except for capital funding, which is considered nonoperating income, as required by HUD.

# City of Manistee Housing Commission

## Notes to Financial Statements December 31, 2005

### Note 1 - Significant Accounting Policies (Continued)

**Accounts Receivable** - All receivables are reported at their net value, reflected where appropriate by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

**Capital Assets** - Capital assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life ranging from 5 to 40 years. Capital assets are defined by the Housing Commission as assets with an initial individual cost of more than \$300 and an estimated useful life in excess of one year.

**Construction in Progress** - Construction in progress consists of capital projects in process primarily funded by the capital grant program.

**Property Taxes** - The Housing Commission is a participant in a tax abatement program providing for payments in lieu of property taxes (PILOT). The payments are computed at 9.75 percent of rental income less utilities expense. In 2004, the Housing Commission reached an agreement with the City of Manistee to pay for several years' worth of PILOT payments that had not been made. The payments were to be made over a period of 36 months, but an agreement was struck and the balance was paid in full in April 2006. The liability is properly disclosed as current at December 31, 2005.

### Note 2 - Deposits

The Housing Commission's deposits at December 31, 2005 are included on the balance sheet as cash in the amount of \$304,744.

The above number is classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 304,244
Investments in securities, mutual funds, and similar vehicles	-
Petty cash	500
Total	<u>\$ 304,744</u>

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$307,130, of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.



# City of Manistee Housing Commission

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## Notes to Financial Statements December 31, 2005

### Note 2 - Deposits (Continued)

The Housing Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Deposits

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Housing Commission's treasury, in commercial accounts payable, or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that the Housing Commission has identified as not required for use within the current two-year period of designation of depositories.

Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Protection of the Housing Commission's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The Housing Commission's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Housing Commission or its safekeeping agent in the Housing Commission's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Housing Commission's name. Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Housing Commission's name. At December 31, 2005, the Housing Commission had \$100,000 in Category 1 and the remaining \$204,744 was in Category 3.

# City of Manistee Housing Commission

## Notes to Financial Statements December 31, 2005

### Note 3 - Capital Assets

Capital assets as of December 31, 2005 include the following:

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005	Depreciable Life-Years
Capital assets being depreciated:					
Land	\$ 312,216	\$ -	\$ -	\$ 312,216	-
Land improvements	45,262	8,465	18,465	72,192	3-15
Buildings	4,650,792	-	-	4,650,792	10-40
Building improvements	2,489,337	80,653	26,881	2,596,871	3-40
Furniture and equipment	409,548	7,596	(5,343)	411,801	3-10
Construction in progress	33,917	11,473	(45,390)	-	-
Total capital assets	7,941,072	108,187	(5,387)	8,043,872	
Accumulated depreciation:					
Land improvements	9,206	9,680	-	18,886	
Buildings	2,968,023	115,091	-	3,083,114	
Building improvements	1,151,270	117,992	-	1,269,262	
Furniture and equipment	378,145	14,412	(22,748)	369,809	
Total accumulated depreciation	4,506,644	257,175	(22,748)	4,741,071	
Net carrying amount	\$ 3,434,428	\$ (148,988)	\$ 17,361	\$ 3,302,801	

Depreciation expense was \$257,175 for the year ended December 31, 2005.

### Note 4 - Risk Management

The Housing Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Housing Commission has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

### Note 5 - Retirement Plan

The Housing Commission participates in a multiple-employer public employee pension plan, under the Municipal Employees' Retirement System of Michigan (MERS). The pension covers all eligible full-time employees (age 60 with 10 years of credited service, age 55 with 15 years of credited service, and age 50 with 25 years of credited service) and requires a minimum contribution by the employees. The Housing Commission's normal cost contribution was computed to be 4.03 percent of member payroll for the fiscal year beginning January 1, 2007. The excess of accrued liabilities over accrued assets was amortized over 30 years as a level percent of payroll. Valuation payroll for the Housing Commission was \$254,191 and employee contributions were \$100,443 for the year ended December 31, 2005.

# **City of Manistee Housing Commission**

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## **Notes to Financial Statements December 31, 2005**

### **Note 5 - Retirement Plan (Continued)**

At December 31, 2005, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits was \$415,562 (employer and employee combined). Valuation assets available to meet this obligation were \$276,658. The Housing Commission's estimated monthly contribution for the fiscal year beginning January 1, 2007 is \$854. There are seven active employees, one vested former member, and one retiree and/or beneficiary. There is an unfunded actuarial accrued liability balance of \$153,643 as of December 31, 2005. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual actuarial valuation.

Housing Commission employees who retire under the pension plan will have the option of maintaining Blue Cross/Blue Shield for themselves and their dependents, the group premium for which will be paid 75 percent by the employer and 25 percent by the employee or spouse upon receipt of an invoice for the same. Employees not covered under the pension plan shall have the same option.

### **Note 6 - Prior Period Adjustment**

Net assets at the beginning of 2005 have been adjusted to correct errors made in 2004, including overstating capital assets and overaccruing payments in lieu of taxes. Had the errors not been made, net assets for 2004 would have been increased by \$17,361.

## **Additional Information**

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To the Members  
City of Manistee Housing Commission  
Manistee, Michigan

We have audited the financial statements of the City of Manistee Housing Commission for the year ended December 31, 2005. Our audit was conducted for the purpose of forming an opinion on these financial statements. The information on pages 19 through 22 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements.

*Plante & Moran, PLLC*

May 18, 2006

# City of Manistee Housing Commission

## Statement of Net Assets by Program December 31, 2005

	C-3077 Low Rent Program 14.850	Capital Fund Program 14.872	Totals
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 304,744	\$ -	\$ 304,744
Accounts receivable - Tenants	4,102	-	4,102
Current portion of note receivable	11,262	-	11,262
Prepaid expenses	27,186	-	27,186
Total current assets	347,294	-	347,294
<b>Long-term Assets</b>			
Capital assets - Net	3,273,611	29,190	3,302,801
Note receivable	16,293	-	16,293
Total long-term assets	3,289,904	29,190	3,319,094
Total assets	<u>\$ 3,637,198</u>	<u>\$ 29,190</u>	<u>\$ 3,666,388</u>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 33,702	\$ -	\$ 33,702
Tenant deposits	24,807	-	24,807
Deferred revenue	15,586	-	15,586
Accrued amounts due in lieu of taxes	90,299	-	90,299
Accrued and other liabilities	60,039	-	60,039
Total current liabilities	224,433	-	224,433
<b>Noncurrent Liabilities - Deferred revenue</b>	16,293	-	16,293
Total liabilities	240,726	-	240,726
<b>Net Assets</b>			
Invested in capital assets	3,273,611	29,190	3,302,801
Unrestricted net assets	122,861	-	122,861
Total net assets	3,396,472	29,190	3,425,662
Total liabilities and net assets	<u>\$ 3,637,198</u>	<u>\$ 29,190</u>	<u>\$ 3,666,388</u>

# City of Manistee Housing Commission

## Statement of Revenue, Expenses, and Changes in Net Assets by Program Year Ended December 31, 2005

	C-3077 Low Rent Program 14,850	Capital Fund Program 14,872	Totals
<b>Operating Revenue</b>			
Tenant rent	\$ 503,301	\$ -	\$ 503,301
HUD grant revenue	292,491	33,744	326,235
Miscellaneous	58,461	-	58,461
Total operating revenue	854,253	33,744	887,997
<b>Operating Expenses</b>			
Administration	256,453	33,744	290,197
Tenant services	6,977	-	6,977
Utilities	151,723	-	151,723
Repairs and maintenance	414,850	-	414,850
Taxes	33,450	-	33,450
Insurance	45,669	-	45,669
Depreciation	253,875	3,300	257,175
Miscellaneous	51,539	-	51,539
Total operating expenses	1,214,536	37,044	1,251,580
<b>Operating Loss - Before nonoperating revenue (expense)</b>	(360,283)	(3,300)	(363,583)
<b>Nonoperating Revenue (Expenses)</b>			
Interest	5,408	-	5,408
Capital grants	-	228,519	228,519
Operating transfers in (out)	228,519	(228,519)	-
<b>Change in Net Assets</b>	(126,356)	(3,300)	(129,656)
<b>Net Assets - Beginning of year (as restated)</b>	3,522,828	32,490	3,555,318
<b>Net Assets - End of year</b>	<u><u>\$ 3,396,472</u></u>	<u><u>\$ 29,190</u></u>	<u><u>\$ 3,425,662</u></u>

# City of Manistee Housing Commission

## Statement of Cash Flows by Program Year Ended December 31, 2005

	C-3077 Low Rent Program 14.850	Capital Fund Program 14.872	Totals
<b>Cash Flows from Operating Activities</b>			
Receipts from HUD operating subsidies and grants	\$ 316,408	\$ 262,263	\$ 578,671
Receipts from tenants	501,478	-	501,478
Other receipts	58,461	-	58,461
Payments for administrative expenses	(256,453)	(33,744)	(290,197)
Payments for other operating items	(85,300)	-	(85,300)
Payments for resident and other services	(573,550)	-	(573,550)
Other payments	(51,539)	-	(51,539)
Net cash provided by operating activities	(90,495)	228,519	138,024
<b>Cash Flows from Noncapital and Related Financing Activities</b> - Operating transfers in (out)	228,519	(228,519)	-
<b>Cash Flows from Capital and Related Financing Activities</b> - Acquisition of capital assets	(108,187)	-	(108,187)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	5,408	-	5,408
<b>Net Increase in Cash</b>	35,245	-	35,245
<b>Cash</b> - January 1, 2005	269,499	-	269,499
<b>Cash</b> - December 31, 2005	<u>\$ 304,744</u>	<u>\$ -</u>	<u>\$ 304,744</u>



# City of Manistee Housing Commission

## Statement of Cash Flows by Program (Continued) Year Ended December 31, 2005

	C-3077 Low Rent Program 14.850	Capital Fund Program 14.872	Totals
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (360,283)	\$ (3,300)	\$ (363,583)
Capital grants	-	228,519	228,519
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	253,875	3,300	257,175
Changes in assets and liabilities:			
Increase in accounts and notes receivable	(5,461)	-	(5,461)
Decrease in prepaid expenses	6,860	-	6,860
Decrease in accounts payable	(13,388)	-	(13,388)
Increase in tenant deposits	11,803	-	11,803
Increase in deferred revenue	26,547	-	26,547
Decrease in accrued and other liabilities	(10,448)	-	(10,448)
Net cash provided by operating activities	<u>\$ (90,495)</u>	<u>\$ 228,519</u>	<u>\$ 138,024</u>

**Noncash Operating, Capital, Financing, and Investing Activities** - There were no noncash operating, capital, financing, and investing activities during the year ended December 31, 2005.